
***First Quarterly Report of the Receiver for
Union Elementary School District No. 62***

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For the Receiver

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Executive Summary

Simon Consulting, LLC (“the Receiver”) was appointed as the Receiver for the Union Elementary School District No. 62 (“UESD”) by the State Board of Education (“SBOE”) on June 25, 2007. At the time of the filing of the 2006-2007 AFR, UESD had overspent their budget for the past three year by a combined total of \$ 2,501,043. In addition, UESD owed more than \$2,000,000 in outside debt, primarily related to overspending and unpaid invoices from the construction of the Dos Rios School. The Receiver entered into an Intergovernmental Agreement (“IGA”) with Tolleson Elementary School District (“TESD”) to draw upon their expertise in assisting the Receiver to turn around UESD in the shortest possible time.

TESD notified the Receiver in November that it would cancel the IGA, effective December 12, 2007. The Receiver immediately took the necessary steps to replace the administrative support that had been provided by TESS under the IGA with UESD personnel. An interim superintendent, finance supervisor, and a middle school principal were all hired and in place as of the date of this report. A new special education director begins at UESD on January 7, 2008.

The Receiver, both through its own actions and those of TESS personnel under the IGA, has had a positive impact on UESD in that UESD is operating more efficiently and cost effectively.

1. While growth has continued at UESD, the revised budget filed with the state in December 2007 shows an expected surplus of more than \$200,000. This surplus is necessary to provide for any unexpected expenses that may occur at UESD as well as to allow for funds to repay both the overspending debt to the state and the external debt owed to vendors.
2. Overtime costs in the 2006-07 school year totaled approximately \$1,000,000. These costs have been almost completely eliminated in the current year.
3. Transportation costs have been reduced through the redesign of bus routes and through the elimination of busing for some students. Overall spending reductions are estimated to be at least \$350,000 for the entire 2007-08 school year.
4. Sold excess bus assets to eliminate over \$340,000 in defaulted debt/lease payments. These three buses were sold to Buckeye Union High School District, saving UESD over \$260,000 in funds that would have been required to redeem the default notice.
5. Analyzed the building costs associated with the Dos Rios school and identified remaining monies in the SFB building allowance. These monies will be used to reduce debt owed to Adolph & Peterson, the general contractor, and Dell Computers. Negotiations with the builder are continuing to determine the final amount owed to A&P by UESD.
6. Cancelled cell phone accounts that were to cost UESD approximately \$20,000 in the 2007-08 school year. Acquired a reduced number of cell phones from a new carrier for necessary personnel (superintendent, principals, etc.), saving the district more than \$12,000.

Comparing the 2006-07 and 2007-08 school year spending as of January 4, shows the following results:

Function Code	Instruction 1000	Support Services 2100, 2200, 2600-2900	Support Services – Admin 2300, 2400, 2500	Total
2006-07 Budget	\$ 4,175,747	\$ 1,652,251.00	\$ 719,099	\$ 6,547,097
2006-07 Spent & Encumbrances	4,638,920	2,168,153.76	869,001	7,676,074
2006-07 (Over) Under Budget	\$ (463,173)	\$ (515,902.76)	\$ (128,852)	\$ (1,128,977)
2007-08 Budget	\$ 4,978,559	\$ 2,262,097	\$ 1,196,818	\$ 8,437,474
2007-08 Spent & Encumbrances	4,720,543	2,279,940	1,161,209	\$ 8,161,692
2007-08 (Over) Under Budget	\$ 258,016	\$ (17,844)	\$ 35,609	\$ 275,782

Data obtained from Visions System, data as of January 4, 2007 and January 4, 2008

Background

UESD serves students in the Tolleson area, approximately 25 miles west of downtown Phoenix. UESD's 2006-2007 ADM was about 1,340 students but UESD has been one of the fastest growing districts in Arizona for the past several years. In fact, the 40th day ADM for the 2007-08 year is now over 1,600 students. This growth is expected to continue in the near future. UESD operated two schools in the 2006-07 school year, Union Elementary and Hurley Ranch. A third school, Dos Rios, was opened for the 2007-08 school year.

Reported Mismanagement

On June 25, 2007, the Arizona State Board of Education entered an order which placed Union Elementary School District No. 62 in Receivership pursuant to ARS § 15-103, and appointed a Receiver for the District. The order cites the State's Proposed Findings of Fact, Conclusions of Law, and Order ¹ (the "Proposal") issued by Attorney General Terry Goddard on behalf of the State of Arizona, the Executive Director of the Arizona State Board of Education, and the State Superintendent of Instruction as the reason for the order.

Scope of Engagement, Progress, and Findings

The following topics are responsibilities assigned to the Receiver in ARS § 15-103. Improving the quality of education for UESD students is also a primary objective for the Receiver.

The Receiver has been unable to return full operational control to district administrators and the Governing Board, due to the size of the debt and other inherent problems. The Receiver is

¹ Arizona Attorney General, "Petition RE: Gross Financial Mismanagement and Request for Appointment of a Receiver and Other Relieve" Case Number 2005-001 August 12, 2005.

beginning to transition to a monitoring role with UESD and hopes to continue to reduce its involvement in the day-to-day process in the near future.

- a) **ARS § 15-103 (F)(1): Override any decisions of the school district's Governing Board or the school district superintendent, or both, concerning the management and operation of the school district, and initiate and make decisions concerning the management and operation of the school district.**
 - i) The Receiver has not had occasion to exercise this power in the most recent quarter.
 - ii) Newly appointed Governing Board member Joshua Hitt's term expires on December 31, 2008. Mr. Delson Sunn's term also expires on December 31, 2008. Mr. Luis Sanchez's term expires on December 3, 2010.
- b) **ARS § 15-103 (F) (2): Attend any and all meetings of the school district's Governing Board and administrative staff.**
 - i) The Receiver has attended most governing board meetings to date, either in person or by telephone, and plans continued attendance or review of meeting minutes.
 - ii) Dr. Paul Hanley, interim Superintendent has begun holding planning meetings with the Governing Board to help the Board function in a more educated manner. Any pertinent issues arising from these meetings are communicated by the interim superintendent to the Receiver.
- c) **ARS § 15-103 (F)(3) Supervise the day-to-day activities of the school district's staff, including reassigning the duties and responsibilities of personnel in a manner that, in the determination of the Receiver, best suits the needs of the school district.**
 - i) The Receiver has reorganized district employees to efficiently manage UESD. Due to the newness of the administrative staff, the Receiver still supervises the activities of the district staff. The Receiver intends to reduce its involvement in the near future. The interim superintendent, Dr. Paul Hanley, has begun the process with the Governing Board to recruit and select a permanent superintendent for the 2008-09 school year.
- d) **ARS § 15-103 (F)(4): Place on extended leave, suspend or terminate for cause the school district's superintendent or chief financial officer, or both. A person terminated pursuant to this paragraph may appeal the Receiver's decision to the state board of education if an appeal is filed with the state board within thirty days of receiving notice of the termination.**
 - i) The Receiver terminated the district Operations manager. Those duties have been assumed by the HR manager. Some duties, such as maintenance and custodial services, have been partially outsourced. No additional employees lost their positions due to this outsourcing.

- e) **ARS § 15-103 (F)(5) Authorize pupils to transfer from schools operated by the school district to schools operated by another school district that is not currently in receivership.**
 - i) Students have elected to transfer to other nearby districts, due to a combination of Receivership issues and the underperforming/failing schools.
- f) **ARS § 15-103 (F)(6): Appoint a chief educational officer who shall possess the powers and duties of a school district superintendent. A chief educational officer who is appointed pursuant to this paragraph shall hold a valid administrative certificate.**
 - i) Dr. Paul Hanley has been retained as the interim superintendent of UESD. Dr. Hanley has many years of experience in a superintendent's role, most recently in the Issac School District and as a consultant in the Aguila School District. Dr. Hanley holds a current Superintendent's certificate. Dr. Hanley also has experience in hiring permanent superintendent personnel and will assist the Receiver and the Governing Board in this process, which is now underway.
- g) **ARS § 15-103 (F)(7): Appoint a chief fiscal officer who shall possess the powers and duties of the school district's chief school business official and any other duties regarding budgeting, accounting and other financial matters that are assigned to the school district by law.**
 - i) Ms. Holly Ann Povee has been hired as UESD's Financial Supervisor and will oversee the district's accounting operations. Ms. Povee holds a current Business Manager certificate from ASBOA. Accounting activities are being reorganized to make more efficient use of district personnel.
- h) **ARS § 15-103 (F)(8): Appoint a competent independent public accountant to audit the accounts of the school district.**
 - i) Heinfeld, Meech & Co., P.C. ("H&M") has been retained for the 2006-07 audit and is scheduled to begin the on-site work in late January, in cooperation with UESD staff.
- i) **ARS § 15-103 (F)(9): Reorganize the school district's financial accounts, management and budgetary systems to improve financial responsibility and reduce financial inefficiency within the district.**
 - i) The Receiver has gained signature control over all UESD auxiliary accounts. The newly hired financial supervisor is beginning to perform monthly cash reconciliations for cash accounts and account balances with the county treasurer and the bank.
- j) **ARS § 15-103 (F)(10) Establish school district fiscal guidelines and a system of internal controls, including internal administrative controls and internal accounting controls, with provisions for internal audits.**

- i) The Receiver has established a set of procedures that are compliant with the USFR. The Receiver is still maintaining daily supervision and review but is planning to begin the transition to a monitoring role as soon as is practicable. An in-depth USFR review is being planned and will be discussed later in this report.
- k) **ARS § 15-103 (F)(11) Cancel or renegotiate any contract, other than contracts of certificated teachers who have been employed by the school district in the capacity of a certificated teacher for more than one year immediately before the date the Receiver was appointed, to which The Governing Board or the school district is a party if the cancellation or renegotiation of the contract will produce needed economies in the operation of the district's schools. The Receiver may refuse to reemploy any certificated teacher who has not been employed by the school district for more than the major portion of three consecutive school years as provided in section 15-536.**
 - i) The Receiver accepted the resignation of the district Operations manager. Those duties, primarily transportation, have been assumed by the HR manager.
 - ii) The Receiver has not canceled any contracts for teachers. Several teachers have asked to be released from their contracts and have been so released. These teachers have been replaced. Additionally, new teachers are being added to the UESD staff as needed to keep class sizes at a manageable level. UESD is continuing to recruit new teachers to fill all anticipated vacancies for fiscal 2008-09.

Financial Improvement Plan

The financial improvement plan details how the District will attempt to eliminate the gross financial mismanagement and achieve financial solvency. The Receiver has divided the financial improvement plan into two sections: financial and operational. Each part of this plan is essential to the success of the school and correction of any gross mismanagement issues that occurred under the previous administration.

Financial Plan

Outside Debt

The Receiver, or its representatives, has analyzed the outstanding outside debt owed to UESD creditors. The Receiver has conducted an accounting of the amounts owed the various vendors. Some accounting errors were identified in earlier calculations and the revised amounts are shown below. The following actions have been taken with regard to the outstanding outside debt.

Adolphson & Peterson (“A&P”)

Several meetings were held between the Receiver and the Arizona School Facilities Board (“SFB”) to determine what had been paid by the SFB and how much funding was left. The SFB also provided the Receiver with copies of its payment file and back-up documentation. The Receiver was able to reconstruct the payments made to A&P for the construction of the Dos Rios school. The Receiver then met with representatives of A&P

and discussed the findings and amounts owed. According to the SFB, there are still some funds available that A&P can draw against, although there are not enough available funds to completely pay the amount due. The SFB requested that A&P resubmit their last payment request along with complete documentation. A&P stated to the Receiver that they will comply with the SFB's request. After the SFB processes that request, A&P and the Receiver will meet to discuss the remaining amount due and possible payment resolutions. The gross amount owed to A&P is estimated to be no more than \$892,591.

Sentinel Technologies ("Sentinel")

A consultant was retained to determine why E-Rate fund applications were turned down for UESD. These funds would have partially or completely paid the amount owed to Sentinel. The E-Rate applications have been corrected and resubmitted for approval. The gross amount owed Sentinel is estimated to be no more than \$224,818.

Dell Computer Corporation ("Dell")

An analysis of invoices showed that Dell was owed a total \$183,438 for the purchase of computers and other electronic equipment for the Dos Rios school. This amount was confirmed by Dell. During the Receiver's meeting with the SFB, it was determined that \$115,000 appropriated by the SFB for computers had never been requested by UESD and that additional Furniture, Fixture, and Equipment ("FF&E") appropriations may also be available. The Receiver has filed the Dell invoices with the SFB and is awaiting their decision on the amount of the payment to be made to UESD. That money will be immediately forwarded to Dell.

Kansas State Bank ("KSB")

The previous administration had entered into three leases with KSB. The first was a one-year, one payment lease-purchase contract for three school buses. None of these buses were being used by UESD. The second was a three year, equal payment lease-purchase contract for a special education equipped bus. The third was a three year, four equal payment first payment paid at contract signing) lease-purchase contract for a copier at the Hurley Ranch school. All three of the leases were declared in default by KSB. The total amount in default to KSB was \$389,188. The Receiver, with the cooperation of KSB, negotiated a sale of the three excess buses to another Arizona school district, saving UESD over \$260,000. The Receiver also authorized payments on the remaining two leases and KSB agreed to restore those leases to a current status. One payment is due in July 2008 on each of the two remaining leases, totaling \$22,526 plus some accrued interest. The KSB default debt was not shown as outside debt in the Receiver's 120 Day report.

A summary of the estimated remaining outside debt is shown below.

Dell	\$183,438	School computers
Sentinel	224,818	Network infrastructure
A&P	892,591	Construction - estimate only
Other debt ²	95,000	Estimate only
Total Outside Debt	<u>\$1,395,847</u>	

Overspending Repayment

Under the legislation requiring a receiver be appointed, UESD must reduce its budget capacity by a total of \$2,500,000 to pay back to the state the amount that was overspent during the 2004-05, 2005-06, and 2006-07 budget years. No specific amount is required to be repaid in any one year. The required payback will have a direct effect on the amount of money that UESD can spend to improve educational quality and to bring the special education program into compliance. The following Receiver actions are ongoing.

Continue to monitor spending to control costs

The Receiver is continuing the monitoring of purchase orders and payroll on a daily basis but is planning to begin the transition to a monitoring role as soon as is practicable with the new staff. The Receiver will be heavily involved in the preparation of the 2008-09 budget for UESD to ensure a balanced position.

Legislative

The Receiver has met with several members of the House and Senate staff to determine what changes are necessary in the Receivership law itself as well as what would be required by the districts currently in receivership to assist their turnaround and recovery. The Receiver has also met with Representative Nelson regarding the proposed legislation and has participated in the review and suggested changes cycle. These meetings have included members from both Simon Consulting (UESD and Colorado City Receiver) and Veriti Consulting (Saddle Mountain and Peach Springs Receiver). The proposed legislation provides for a three year period with no budget capacity reduction and then a five year budget reduction payback period. This is particularly important to UESD since it allows the District to put more spending into the Special Education programs and into the classrooms to improve the underperforming and failing schools. Action on the proposed legislation is expected in early 2008.

² Other debt consists of amounts owed to architects, other vendors and various severance agreements.

Operational Plan

Currently, the District is working towards “independent functionality” without the daily assistance of the Receiver. However, the success of the operational plan is completely dependent on solving the financial issues of UESD. Without the financial solution, sufficient money will not be available to make the changes described below. The operational improvement plan contains the following steps.

Ensure compliance with all USFR and Federal guidelines

The Receiver has implemented the aforementioned procedural policies and practice with the District. The Receiver is preparing to complete a detailed analysis of UESD of all USFR and Federal guideline to ensure that the District is operating in compliance. The Receiver will evaluate this analysis, along with the audit findings of Heinfeld, Meech & Co. to determine what further actions, if any, will need to be taken.

Monitor the performance of the District through periodic detailed evaluations

The Receiver plans to use an evaluation process to improve the job performance and knowledge base of the administrative staff, and as a mechanism for monitoring the relationship.

Receiver evaluations will consist of one or more agents of the Receivership traveling to UESD and conducting an evaluation of individual administrative employees. These employees will provide the Receiver with their procedure binder. The procedures in this binder will be compared to pertinent USFR and ARS guidelines for compliance.

Once the procedures are deemed compliant with the USFR and ARS, the Receiver will select work performed by the employee and compare it to established procedures. The Receiver will analyze the work sample to ensure that the employee followed the procedures and documented their work.

At the end of the Receiver evaluation, the Receiver will analyze what was done, report any deficiencies to the employee and their supervisor, and create a plan for correction of the deficiencies in future work.

These Receiver evaluations are vital to the effective reformation of the District. The Receiver’s evaluations are learning experiences for the employees and monitoring activities for the Receiver. The Receiver intends to implement and complete these evaluations within the next 90 days.

Improve Special Education programs

The Receiver approved, and UESD has hired, Ms. Debra Ryan as the Special Education Director. Ms. Ryan started at UESD on January 7, 2008. Ms. Ryan holds a Masters degree from ASU-West in Educational Administration and Supervision and has worked in the

Special Education field for several years. Her primary duties will be assessing the special education student files to ensure compliance with required needs. She will also prepare a needs assessment for the UESD program and will advise the Receiver on what is required to allow the Special Education program and staff at UESD to better serve the students.



Peter S. Davis
Simon Consulting, LLC
As Receiver for
Union Elementary School District No. 62

1/14/2008
Date

Appendix A: UESD Work Plan for Fiscal Year 2007-08

Task	Persons Responsible	Deliverable/Goal	Due Date
1.) File claim for unpaid monies from SFB for computers and furniture	Finance Supervisor and Receiver	Request for Claim submitted to the SFB	1/7/2008
2.) Implementation of new internal control and accounting policies and procedures.	Finance Supervisor, Superintendent and Receiver	Reports sent to the governing board	1/15/2008
3.) Regular Monitoring of UESD financial affairs by the Receiver.	Receiver	Reports sent to the governing board	Monthly beginning 1/10/2008
4.) Prepare for and complete 2006-07 audit	Finance Supervisor, Superintendent and Receiver	Audit scheduled by Heinfeld, Meech & Co.	3/31/2008
5.) Prepare Administrative, Certified, and Classified Salary schedules for 2008-09. Develop new contract forms for all types of staff.	Human Resources, Finance Supervisor, Superintendent, and Receiver	Governing Board approval	3/15/2008
6.) Prepare and submit contracts to Administrative, Certified, and Classified staff for 2008-09	Human Resources	Contracts completed and submitted to staff	3/31/2008
7.) Monitoring of credit position cash balances (County Treasurer), and budget capacity (Expenditure Budget)	Superintendent and Finance Supervisor	Monthly reports to the Governing Board and Receiver	Monthly
8.) Develop plan and conduct review of UESD policies and procedures for USFR compliance	Finance Supervisor, Superintendent and Receiver	Reports sent to the governing board and Auditor General quarterly	3/31/2008
9.) Planning for school configuration for the 2008-09 year	Superintendent and Governing Board	Governing Board action required in March so that proper notice may be given to parents and students.	3/31/2008
10.) Recruit, interview and hire permanent Superintendent	Superintendent, Receiver, and Governing Board	Superintendent in place	5/31/2008